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The changing accounting and reporting landscape – FRS 101/102

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Introduction

In early 2013, the Financial Reporting Council introduced four new accounting standards that are intended to replace the existing UK Generally Accepted Accounting Principles (UK GAAP) for all medium and large companies and groups except for small organisations that report under the Financial Reporting Standard for Smaller Entities (FRSSE). The new standards are:

- FRS 100 Application of Financial Reporting Requirements;
- FRS 101 Reduced Disclosure Framework;
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- FRS 103 Insurance Contracts.

The FRS 100 framework provides a general explanation of the new financial reporting requirements, covering the application of the standards to different types of entities and the application of the reduced disclosure framework and the Statement of Recommended Practice (SORP).

The FRS 101 standard introduces a reduced disclosure framework available only to certain qualifying entities (ultimate parents and subsidiaries, which otherwise follow the recognition, measurement and disclosure requirements of EU-adopted IFRS) that allows them to apply significant disclosure exemptions when preparing their individual financial statements.

FRS 102, on the other hand, defines the fundamentals of the new single reporting standard that is largely based on the IFRS for SMEs and aims to replace all existing UK accounting standards, while FRS 103 merges all current financial reporting requirements for insurance contracts.

When will the changes take effect?

The new standards are due to take effect for reporting periods starting on or after 1 January 2015, although earlier adoption is permitted, subject to certain limitation.

FRS 102 Implementation: for a December Year End entity

Document Aquisition		
Dec 2013	Dec 2014	Dec 2015

Reporting Rules		
Current rules	Current rules	FRS 102 requirements

FRS 102 Effect		
Opening balance sheet restatement	FRS 102 comparatives	Complete FRS 102 accounts

What will the key business implications be?

The new accounting standards will have some key implications for businesses, including:

- Mandatory compliance with the new reporting requirements for all medium and large entities
- New standards will apply for accounting periods starting on or after 1 January 2015, but transition rules will require reporting of balance sheets from 31 December 2013 onwards
- Changes to presentation of the financial statements, requiring increased disclosure of data
- Amendments to tax returns and computations to reflect the new obligations

The new financial reporting requirements will significantly vary between companies and depend on the nature and size of an entity, having a major impact on those companies who have previously been reporting under the "old" UK GAAP.

Therefore, firms will have to determine which reporting category they fall into and the number of changes applicable to their existing reporting obligations.

The FRSs categories are as follows:

	EU-adopted IFRS (EU IFRS)	FRS 102	Reduced-disclosure exemptions (under FRS 101 & 102)	FRSSE
Full Listed Group				
Consolidated financial statements	✓	×	×	×
Parent or subsidiary individual financial statements	✓	✓	✓	×
Listed individual entity	✓	✓	×	×
Non-listed medium or large group				
Consolidated financial statements	✓	✓	✓	×
Parent or subsidiary individual financial statements	✓	✓	×	×
Unlisted medium or large individual entity	✓	✓	✓	×
Small or micro-entity	✓	✓	×	✓

*Reference: Blick Rothenberg LLP, (2014), New UK GAAP – are you ready?, available at:
http://www.blickrothenberg.com/getmedia/637a6e8b-ea76-4724-87b7-529406a4e9bd/New-UK-GAAP.pdf.aspx

FRS 102 will affect all large and medium-sized entities that are neither required nor have opted to apply EU IFRS, FRS 101 or the FRSSE framework. These will include not only companies but also LLPs, charities (unincorporated or incorporated), partnerships, trusts and offshores. Group entities listed on regulated exchanges, on the other hand, will be required to continue preparing their consolidated financial statements under the EU IFRS regime.

What are the key differences between FRS 102 and the current UK GAAP regime?

As mentioned above, the impact of the new regime will vary between organisations and depend on each entity's individual circumstances.

Here are some of the key differences between FRS 102 and UK GAAP:

Financial Instruments	FRS 102 introduces new rules for financial instruments, the main change being a requirement that all derivatives be presented on the balance sheet at fair value.
Pension Schemes	The new framework sets up new rules for defined benefit pension schemes – e.g. requiring group plan deficits to be included in the balance sheet of at least one individual entity.
Investment Properties	Investment properties need to be carried at fair value, with revaluation gains and losses recorded in the Profit & Loss, where fair value can be "readily determinable without undue cost or effort".
Business Combinations, Intangible Assets & Goodwill	Under FRS 102, in case of business combinations, intangible assets should be measured at fair value and recognised separately from goodwill. In addition, goodwill and intangible assets should have a finite life. If the useful life of goodwill or intangibles cannot be measured reliably, the life must not exceed five years.
Deferred Tax	FRS 102 requires any additional deferred tax to be recognised on revaluations, for instance on assets such as property, plant and equipment and investment properties.
Merger Accounting	Under FRS 102, merger accounting is allowed only for group reconstructions and certain business combinations including public benefit entities.

How to get ready for FRS 102

Q3 2014

- Understand the implications of the new standard
- Perform impact analysis on financial statements
- Select an accounting policy
- Collect required data
- Complete opening transition balance sheet
- Review current operation approaches and procedures
- Acquire new systems and processes if required

Q4 2014

- Implement the new regime
- Integrate new systems and embed processes within the business
- Prepare 2014 statutory accounts
- Prepare restated 2014 comparatives under FRS 102

Q4 2015

- Prepare 2015 statutory accounts under FRS 102
- Reconcile FRS 102 comparatives

How will FRS 102 affect iXBRL reporting?

The FRC is expected to publish an updated iXBRL reporting taxonomy for the implementation of the new FRS 102 accounting regime later this year. The new taxonomy will aim to provide more comprehensive and more reliable XBRL disclosure.

Here is a list of the key taxonomy changes :

Typed dimensions	One problem with the existing taxonomies is that detailed breakdowns are often only partially taggable since there is only a finite selection of XBRL concepts available. Typed dimensions allow the preparer to repeat 'additional component' tags until every line item has been included. For example, the existing UK IFRS taxonomy provides seventeen Revenue Heading concepts to tag different types of Revenue (from royalties, from sale of goods, etc) but given the huge diversity in how firms divide their turnover it is currently not uncommon to find Revenue splits only partially tagged. With the addition of the repeatable Further Revenue Item concept, however, preparers will simply repeat this tag until all components are accounted for.
No more tuples	The addition of typed dimensions allows infinite repetition of grouped tags without the need for tuple groupings. In short, related items will be grouped together by assignment of a common numbered dimension rather than a tuple parent – streamlining software interfaces and allowing more intuitive tagging and review.
Consistency Checking	Current taxonomies provide for only limited consistency checking in that inconsistent duplicate facts can be screened at validation stage. With the augmented completeness of tagging facilitated by typed dimensions, the FRC 'is considering the publication of a set of consistency checks covering expected summations and other relations involving tagged data' (FRC, 2014). In practice this will allow software providers to add greater levels of accuracy checking into their tools, aiding preparers and improving accuracy of XBRL data.

How can Arkk Solutions help?

IFRS & FRS 102 iXBRL managed tagging service

- Remove all the hassle with our iXBRL Managed Tagging Service delivered by our own team of qualified accountants who are experts in financial reporting and iXBRL.

Legislation updates

- Our strong relationships with industry regulatory bodies allow us to get first-hand insight into forthcoming legislation changes and keep our software and services up-to-date.

iXBRL import & FRS 101/102 roll-forward service

- Arkk's unique iXBRL importer allows us to import to Word, amend and roll-forward your iXBRL reports prepared by other providers.

Expert advice and full support

- We have a team of qualified accountants, consultants and dedicated customer service professionals ready to answer all your iXBRL-related queries. We also partner with leading financial services firms to help our clients stay ahead of the transition.

For help with FRS 101 and 102, please call on 0207 036 2758 (UK) or 01 525 5409 (ROI) to speak with one of our consultants.

About Arkk Solutions

Arkk Solutions is the UK and Ireland's leading iXBRL software and outsourcing provider. Since 2009, Arkk have been providing easy-to-use solutions that allow companies and accountancy firms to convert their statutory accounts and tax computations into iXBRL.

To find out more about how we can help you with cost effective iXBRL conversion solutions please call us on 0207 036 2758 (UK) or 01 525 5409 (ROI) or email enquiries@arkksolutions.com.

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